Jay E. Gruber

(617) 573-0449 Telephone: (617) 573-0100

jgruber@palmerdodge.com Facsimile: (617) 227-4420

September 12, 2000

BY HAND

Mary Cottrell

Secretary

Department of Public Utilities

One South Station, 2nd Floor

Boston, MA 02110

Re: D.P.U./D.T.E. 94-185-E

Dear Secretary Cottrell:

I write on behalf of AT&T Communications of New England, Inc. ("AT&T") regarding Verizon's revised price floor calculations that were filed on August 24, 2000 ("August 24 Filing"), pursuant to directives in the Department's August 3, 2000, order, D.P.U./D.T.E. 94-185-E ("Price Floor Order"). In the Price Floor Order, the Department directed Verizon to make certain changes to the price floor calculations that it had filed on November 2, 1998.

On August 29, 2000, Hearing Officer Voveris issued a memorandum seeking comment on Verizon's August 24 Filing. This letter is intended to provide AT&T's initial comments, but - as explained in more detail below - it is not possible for AT&T (or for the Department) to evaluate Verizon's compliance with the Price Floor Order until Verizon provides an explanation for changes it has made to its November 2, 1998, calculation of intra-state revenues for purposes of calculating the retail overhead expense factor, when the Price Floor Order directed changes to expenses, not revenues.

The unauthorized changes are significant in that they result in a retail overhead factor of 16.02%, rather than the 18.86% that would result had Verizon used the same intra-state revenues that it used in its November 2, 1998, price floor filing. In the absence of any support for the changes from Verizon, the Department should direct Verizon to rely on its November 2, 1998, calculation of intra-state revenues. If the Department permits Verizon to seek to justify the unauthorized changes to intra-state revenues that it made in the August 24 Filing, AT&T reserves its right to challenge any putative "justification."

In its Price Floor Order, the Department directed Verizon to change two specific aspects of its November 2, 1998, filing. The first related to Verizon's bundling, or combining, of toll services with local and credit card services in a manner that prevented toll prices (or revenues) from being compared directly against Bell Atlantic's access charges (or revenues). In that regard, the Department directed Verizon "to calculate separate price floors for each of the measured toll services included in the bundled optional calling plans." Id., at 11 (footnote omitted). This "bundling" issue is not the subject of these comments, as AT&T has not identified any issues with respect to Verizon's compliance with this directive.

The second aspect of Verizon's November 2, 1998, filing that the Department addressed in its Price Floor Order was Verizon's decision to use separated cost data to calculate the retail overhead expense loading factor. The Department directed Verizon to "use total, un-separated expenses in its calculation of the marginal cost of related overhead of non-premium toll services." Id., at 16. In directing Verizon to modify the expense calculation, the Department stated, "the purpose of this proceeding is to look at the actual costs incurred by [Verizon] and to determine which expenses would be incurred in providing retail services." Id., at 15. Yet, when Verizon recalculated its overhead expense factor in the August 24 Filing, it changed not only the expense number in the numerator; it changed the intra-state revenue number in the denominator.

In its November 2, 1998 price floor calculation, Verizon calculated revenues of $1,778,338,953. See, Workpaper 4, page 3 of 3, line 22. In its August 24 Filing, Verizon calculated revenues of $2,092,643,330. See, Workpaper 3, Tab 2, in the August 24 Filing. The difference appears to be the result of the inclusion in the August 24 Filing of some new accounts and subaccounts as compared to the November 2, 1998, filing (compare, e.g., Account 5001 in the two filings; see also, Account 5264, which appears in the August 24 Filing, but not the November 2, 1998 filing), and the exclusion of some old subaccounts from the November 2, 1998, filing (see, Subaccount 5060.2, which appears in the November 2, 1998, filing and is missing from the August 24 Filing).

While AT&T has been able to identify changes that Verizon has made to its calculation of intra-state revenues for purposes of calculating the retail overhead expense factor, it cannot speculate on why Verizon has done so, when the Price Floor Order expressly directed Verizon to use un-separated, instead of separated, expenses in order to better measure the marginal cost of related overhead. In the absence of an explanation from Verizon, the Department should deny Verizon's August 24 Filing and direct it to comply with the Price Floor Order. If the Department permits Verizon to provide a putative explanation and, thus, to seek changes to its price floor calculations not authorized by the Department's Price Floor Order, AT&T reserves its right to challenge any supposed justification that Verizon provides.

Sincerely yours,

Jay E. Gruber

cc: Service List